THE NORTH WEST COMPANY INC.

1996 ANNUAL REPORT

Growing with the North

THE NORTH WEST COMPANY INC.

The North West Company is North America's leading retailer of food, family apparel and general merchandise in northern communities.

In 1997, we are celebrating our 10th anniversary as an independent company – though we trace our roots back to the first trading post in North America, established at Waskaganish on James Bay in 1668.

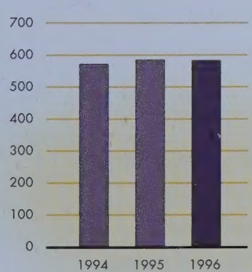
10th Anniversary

1996 Highlights

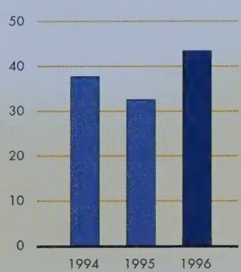
(in thousands)	52 weeks ended January 25, 1997	52 weeks ended January 27, 1996	52 weeks ended January 28, 1995
Results for the Year			
Sales and other revenue	$ 590,583	$ 592,034	$ 586,242
Operating profit before provision for loss on disposition, interest & income taxes	43,208	32,860	38,432
Net earnings (loss)	17,858	(5,172)	16,239
Pre-tax cash flow [1]	47,514	35,483	40,165
Financial Position			
Total assets	$ 381,590	$ 375,947	$ 392,434
Total debt	175,027	178,275	176,748
Shareholders' equity	147,353	139,953	159,974
Per Share ($)			
Fully diluted earnings for the year before provision for loss on disposition	$ 1.18	$ 0.68	$ 1.00
Fully diluted earnings (loss) for the year	1.18	(0.32)	1.00
Pre-tax cash flow [1]	3.15	2.21	2.48
Cash dividends	0.40	0.40	0.40
Shareholders' equity	9.82	9.02	9.90
Shares outstanding (# in 000's)	15,000	15,519	16,164
Average shares outstanding (# in 000's)	15,095	16,040	16,164
Financial Ratios			
Debt to equity	1.19 : 1	1.27 : 1	1.11 : 1
Return on net assets [2]	13.4%	9.8%	12.5%
Return on average equity before provision	12.7%	7.0%	10.6%

(1) Earnings before taxes and depreciation.
(2) Pre-tax earnings plus interest as a percent of average net assets employed.

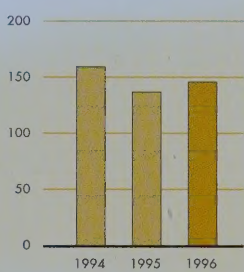
SALES AND OTHER REVENUE
[$ in millions]



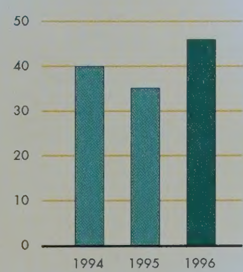
OPERATING PROFIT
[$ in millions]



SHAREHOLDERS' EQUITY
[$ in millions]



PRE-TAX CASH FLOW
[$ in millions]



A Breakthrough Year

The North West Company ("NWC") achieved an earnings breakthrough in 1996. Continued growth in Canadian operating profits resulted in record earnings, while Alaskan operations were rationalized and a new market positioning was initiated. Significant gains were made in improving both our financial position and shareholder value.

Looking ahead, NWC has created an innovative new structure designed to provide more income for shareholders. With clear evidence of better performance from our Alaskan operations, and our ability to realize improved returns from the large investments made in recent years in stores, technology and processes, we look forward to a strong 1997.

Our first Canadian *Burger King* outlet opened in The Pas in November 1996.

CONSOLIDATED RESULTS

Earnings per share were $1.18, an increase of 73.5% over the earnings per share before provision for loss on disposition of assets of $0.68 in 1995, and an increase of 11.3% over the previous record of $1.06 in 1993. Revenues for the year decreased 0.2% to $590.6 million. Operating profit increased 31.5% to $43.2 million before deducting the provision for loss on disposition of assets in Alaska incurred last year.

CANADIAN OPERATIONS

Canadian revenues increased 0.9% for the year to $474.5 million and operating profit increased 23.2% to $43.0 million. Canadian operating profits have grown at a compound annual rate of 8.1% over the past three years — one of the better performances in the retail industry. Food sales, representing 62.9% of sales, increased by 3.7% (2.9% in comparable stores), while general merchandise sales were down by 3.9% (3.0% in comparable stores). Reduced levels of disposable income resulting from constrained government spending in some regions impacted our general merchandise sales performance with big ticket and apparel being the weakest categories. Sales rebounded in the final quarter of 1996.

The strong food sales performance was achieved through improved service from our expanded food distribution centre, increased selling space allocated to food, stronger produce and freshness programs and the expansion of our *Quickstop* branded fast food court to five more stores, including our first *Burger King* outlet.

NEW MANAGEMENT

AC Management: (left to right) Dick Hodge, Vice-President of Large Store Operations; Rex Wilhelm, Vice-President of Small Store Operations; Edward Kennedy, Chairman and Chief Executive Officer; and Jerry Bittner, President.

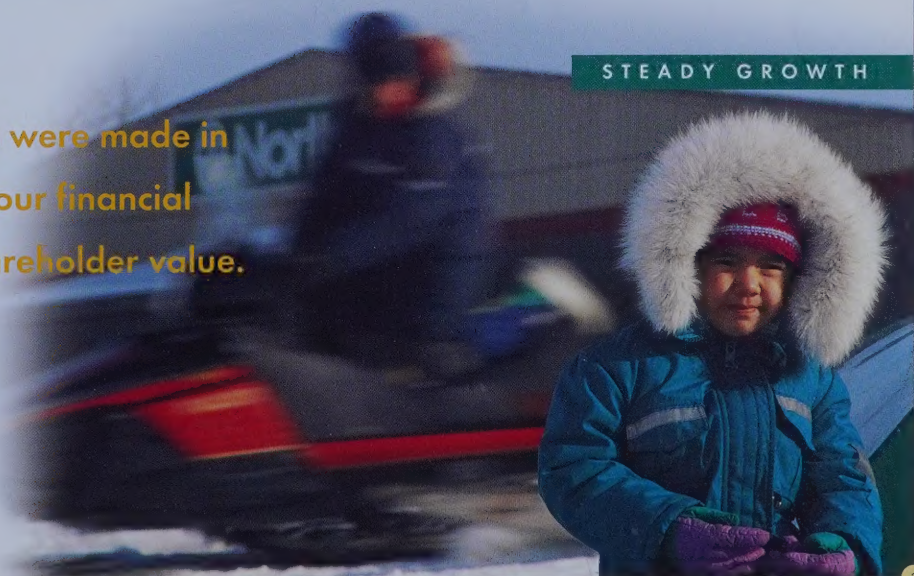
ALASKAN OPERATIONS (stated in U.S. dollars)

For the year, sales at the Alaska Commercial Company ("**AC**") decreased 4.9% to $85.2 million due to a constrained fishing economy, the elimination of unprofitable businesses and the re-profiling of the merchandise assortment. **AC** recorded an operating profit for the year of $140,000 as compared with a loss of $1.5 million in 1995.

During 1996, **AC** completed the integration of its accounting, information systems and other support activities with NWC's head office in Winnipeg. Savings of $800,000 are expected to be realized in 1997, while adding expertise in these areas.

Early in the year, two experienced U.S. retail executives were recruited to strengthen **AC**'s senior management. Jerry Bittner, whose background covers 34 years of discount, warehouse club and food retailing experience, joined as Vice-President of Marketing in February and was appointed President in December. Dick Hodge, a food retailer with extensive experience in Alaska and the 'lower 48', joined **AC** in February as Vice-President of Large Store Operations, which account for 75% of **AC**'s sales base.

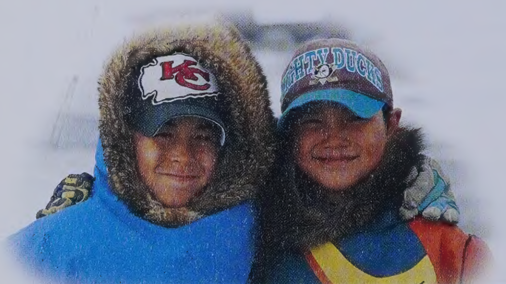
Significant gains were made in improving both our financial position and shareholder value.



STEADY GROWTH

FINANCIAL POSITION

Pre-tax cash flow was a record $47.5 million, or $3.15 a share, up from $35.5 million or $2.21 a share in 1995. The Company's ratio of current assets to current liabilities at January 25, 1997 was 2.0 times, compared with 2.3 times last year. The debt to equity ratio has decreased from 1.27 : 1 to 1.19 : 1. Long-term debt was reduced by $7.5 million and 519,000 shares were repurchased for cancellation under our issuer bid program at an average price of $7.54.



A NEW STRUCTURE

IMPROVING SHAREHOLDER VALUE: NORTH WEST COMPANY FUND ("NWF")

On February 17, 1997, a new structure was announced to improve shareholder value. This innovative restructuring of the shareholders' ownership in the Company, through the NWF, will allow the distribution to unitholders from pre-tax income rather than from after tax income. Quarterly distributions of 17.5¢ per unit are planned commencing September 15, 1997, an increase of 75% over our current dividend of 10¢ per quarter. The new Fund structure is discussed in the following pages.

STRATEGIC DIRECTION

Significant progress was made on our strategic initiatives to build on NWC's strength and market dominance in northern Canadian markets, while bringing the people skills and positioning focus needed to improve the profitability of our Alaskan stores. Our strategy to replace stores in key locations moved further ahead in 1996, with larger stores opening in Baker Lake and Pangnirtung. In 1997, major store projects will be completed in Happy Valley, Rankin Inlet and Bethel. Over the past five years, this initiative, although very capital-intensive, has enabled NWC to grow with the demographic and income trends of the North's most attractive retail markets.

NWC's next stage of growth will come from four areas:

- delivering on our new process, technology and store investments;
- realizing the full turnaround potential of **AC**;
- more aggressively adjusting our product and service mix within and between our store and catalogue formats to capture a larger,more profitable share of spending in the North;
- leveraging our buying, distribution and transportation infrastructure to expand complementary businesses or to lower costs.

BUILDING ON OUR STRENGTHS

MANAGEMENT SUCCESSION

Don Coles, Vice-President of Distribution and Transportation, retired January 31, 1997 after a 37-year career with NWC. He developed our distribution and transportation business with an entrepreneurial flair and dedication to our northern customers. Dave Brears, Vice-President of Retail Operations, retired March 31, 1997 after a 39-year career with the Company. He was responsible for many innovations in northern retailing and for developing many of our key management personnel in the stores and head office. Our business and our key values owe much to these great Nor'Westers. On March 21, 1997, T. Iain Ronald retired as Chairman. He remains a Director and Chairman of the Corporate Governance and Nominating Committee. On the same date, Ian Sutherland became Chairman, and Edward Kennedy assumed the position of President and Chief Executive Officer, after two years as Chief Executive Officer of **AC**. Bill Douglas, Vice-President of Marketing for the past six years, became Vice-President of Retail Operations in April 1997. Brad Vollrath was appointed Vice-President of Distribution and Transportation after two years as Vice-President of Finance, Distribution and Transportation at **AC**.

TEN YEARS FORWARD IN HISTORY

TENTH ANNIVERSARY

1997 marks the tenth anniversary of NWC as an independent company. Of course, our operating history as an enterprise goes back much further – 329 years – to the establishment of a trading business on James Bay in 1668. It is a tribute to the values, enterprise and commitment to customer service of all Nor'Westers that NWC remains a vital company today – *growing with the North*.

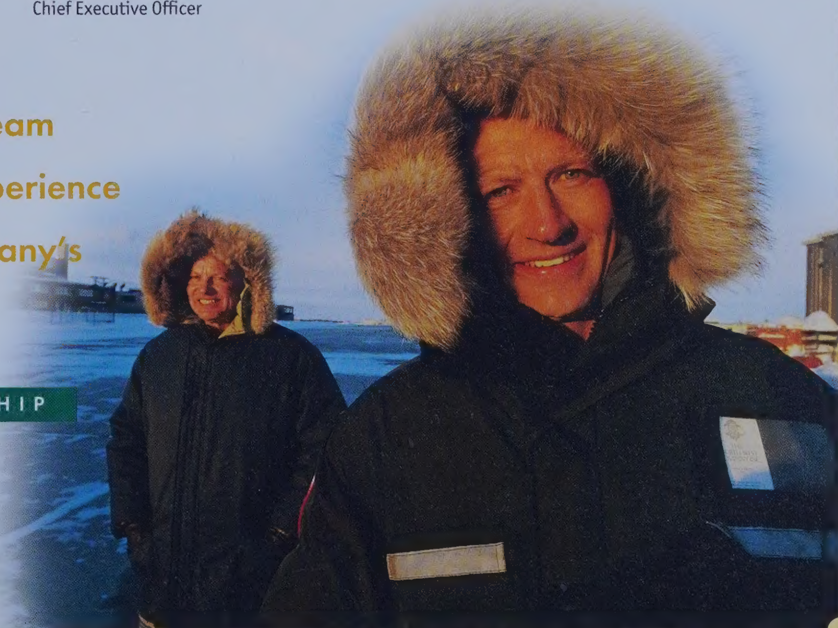
Ian Sutherland

Ian Sutherland, Chairman

Edward Kennedy

Edward Kennedy, President and Chief Executive Officer

...the management team has the skills and experience to build on the Company's strong franchise.



FOCUSED LEADERSHIP

A Unique Northern Perspective

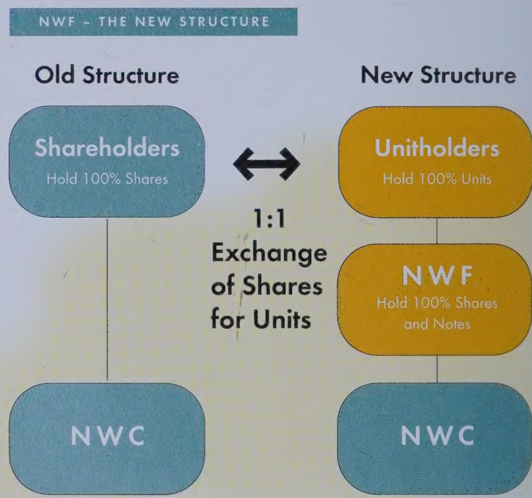
THE NORTH WEST COMPANY INC.

Winnipeg	Gibraltar House (Corporate Head Office) Retail Service Centre Northcan Distributors Odd Lots Discount Centre Motorized Division Selections Catalogue Operations
Anchorage	Alaska Commercial Company (Head Office) Frontier Expeditors Distribution Centre
Edmonton	Edmonton Regional Office
Toronto	Inuit Art Marketing Service
Montreal	Montreal Consolidation Centre

- 146 **Northern** Stores
- 4 *Quickstop* Convenience Stores
- 2 *NorthMarts*
- 7 Trading Posts
- 23 **AC** *Value Centers*
- 4 **AC** *Express Centers*

A New Structure
to Enhance Shareholder Value

On March 27, 1997, The North West Company achieved two innovative firsts. It became the first retailer to restructure itself as a Fund for the benefit of its shareholders. It was also the first company to effect such a restructuring with its existing shareholders without the sale of new securities to new owners. The new structure makes the enterprise owned by shareholders, now unitholders, a Fund – the North West Company Fund ("NWF") – which will own all of the subordinated debt and equity of NWC.



PURPOSE OF THE FUND

The Fund makes it possible to pay the unitholders out of pre-tax income such that distributions will be 75% greater than the dividends under the former corporate structure. The increased distributions will be funded by tax savings and will not reduce funds available for capital spending and debt repayment.

NEW DISTRIBUTION POLICY

The Board of NWC has had a policy of paying out approximately 35 to 40% of prior year's after tax income as dividends. Under the new structure, since distributions will be paid out of pre-tax income, the Board will define a distribution policy as a proportion of earnings, before taxes and depreciation (pre-tax cash flow). In determining this policy, key considerations will be to continue the growth of NWC through capital spending, and to reduce the debt to equity ratio to 1:1. A pay out distribution representing 30% of 1996 pre-tax cash flow would result in a distribution of approximately 95¢ per unit in 1998. The initial quarterly distribution of the Fund is scheduled for September 15, 1997, and will be 17.5¢ or 75% greater than the former dividend of 10¢ per quarter.

IMPROVED RETURNS TO SHAREHOLDERS

A NEW DISTRIBUTION FRAMEWORK

	1992	1993	1994	1995	1996
Pre-tax cash flow / share ($)	2.26	2.46	2.48	2.21	3.15
Pre-tax equivalent dividend / share ($)	.63	.63	.70	.70	.70
Pay out percent (%)	27.9	25.6	28.2	31.7	22.2

Over 70% of NWC shares are owned by pension funds, RSP's and tax exempt Aboriginal investment groups. These shareholders will realize a 75% improvement in their cash returns from NWF. Taxable shareholders will have a 1997 tax liability if the average cost of their shares is less than the exchange value, determined as $11.70 per share. Taxable shareholders will also lose the benefit of the dividend tax credit on dividends but, on an after tax basis, they will net 25 to 40% more depending on their marginal tax rate. We believe that even the taxable shareholders will be substantially better off as the increase in unit value over the former share value is expected to exceed any tax payable on the exchange, and unitholders will benefit from increased after tax distributions.

UNIT VALUES SHOULD INCREASE OVER FORMER SHARE VALUES

The Fund structure improves cash distributions by 75% and increases earnings per unit and return on equity by over 25% **while not affecting the growth prospects of the Company, its management, or its strong franchise.** The Company intends to retain approximately 70% of its pre-tax cash flow to enhance its future. Because trust units have traded more actively than common shares, it is expected that the liquidity of NWF units should be significantly greater than the liquidity of NWC shares. Research indicates that improved investment values are generated from higher liquidity. Higher yield, higher earnings, increased liquidity – and the same strong Company – should yield higher unit values.

NWF

PRO FORMA STATEMENT

(in thousands) BALANCE SHEET DATA	Company Actual January 25, 1997	Fund Pro Forma January 25, 1997
Current assets	$ 185,139	$ 185,139
Capital assets	184,268	184,268
Other assets	12,183	12,183
Total assets	**$ 381,590**	**$ 381,590**
Current liabilities	$ 90,439	$ 91,939
Long-term debt	135,228	135,228
Deferred income taxes	8,570	7,925
Equity	147,353	146,498
Total liabilities and equity	**$ 381,590**	**$ 381,590**

STATEMENT OF EARNINGS AND EQUITY	Fiscal Year Ended January 25, 1997	Fiscal Year Ended January 25, 1997
Operating Profit	**$ 43,208**	**$ 43,208**
Interest	(11,843)	(11,843)
Provision for income taxes	(13,507)	(8,984)
Earnings for the year	**$ 17,858**	**$ 22,381**
Share capital and retained earnings, beginning of year	139,244	139,244
Dividends/distributions	(6,031)	(10,554)
Purchases of shares for cancellation/redemption	(3,916)	(3,916)
Cumulative translation adjustment	198	198
Expenses of the arrangement, net of tax	–	(855)
Equity, end of period	**$ 147,353**	**$ 146,498**
Dividends per share/ distributions per unit	$ 0.40	$ 0.70
Earnings per share/unit		
Basic and fully diluted	$ 1.18	$ 1.48
Book value per share/unit	$ 9.82	$ 9.77

NWF: THE SAME STRONG COMPANY

- Ownership is unchanged. Shares exchanged for units on a one-for-one basis.
- Credit rating unchanged;
  - NWF rated as investment grade,
  - Remains a prime rate borrower.
- Employee ownership plans are unchanged.
- No effect on operations of Company.
- Governance substantially unchanged;
  - Unitholders elect trustees of NWF and, indirectly, the Board of Directors of NWC.
- NWF to reinvest 70% of pre-tax cash flow to finance growth.

As this pro forma statement indicates, the balance sheet is largely unchanged while investor distributions increase 75% and earnings per unit are over 25% greater than earnings per share on a corporate basis.

Growing with the North

AN INTERVIEW WITH EDWARD KENNEDY

Edward Kennedy, President and Chief Executive Officer of The North West Company.

Q: What is The North West Company's competitive advantage and how does that translate into profitable growth opportunities?

A: We know the North and are committed to making a real difference in the lives of the customers and communities we serve there.

Our challenge lies in our ability to meet the changing needs of the North. This will enable us to capture a larger, more profitable share of our customers' spending and forge even stronger community relationships.

New and modified store formats, catalogue and other non-store formats, more tailored local assortments, complementary businesses, leveraging technology to lower costs, adding new skills and marrying all of this with our knowledge of the North – these are the forces that will drive our success and growth.

Q: The Company has had a rough ride in Alaska. What will change that?

A: First, let's look at why we've run into problems. When we acquired the Alaska Commercial Company four years ago, we considered rural Alaska to be a close fit with our core **Northern** business in Canada. The competitive picture was pretty quiet and we didn't expect this to change over the medium term. When new competition did enter, immediately after the acquisition, we moved quickly to protect existing markets by reinvesting in new, larger stores before our support infrastructure and market positioning was in place. We also learned that, compared to northern Canada, Alaskan shoppers have different expectations. For instance, they like more selection in foods and longer store hours.

In response, we lowered our costs by leveraging activities in Canada. We've repositioned our stores to be dominant in foods, emphasizing perishables and home meal replacement, apparel and lower-priced home and outdoor living categories, like toys, housewares, videos and seasonal. We are selectively investing in key locations, and we will add point-of-sale ("POS") technology to all stores by the end of 1997. We're encouraged by our improved results but we feel even better about **AC**'s potential to make a significant contribution to our bottom line.

Our challenge lies in our ability to meet the changing needs of the North.

CUSTOMER LOYALTY

...we have continued to provide value and have been rewarded with very loyal customers.

Q: Northerners are getting more shopping and spending choices than ever before. How much of a threat is this to the Company?

A: The North has been an increasingly dynamic retail market for the last 15 years. Income and population growth have coincided with more travel, increased outside spending and higher living costs at home. During this time, we have successfully built our business because we know the North and our strength within it. Southern shopping alternatives offer our customers selection and low prices that are hard to beat but hard to reach. So, we have focused on offering convenience, quality, in-stock products, credit and supportive community relations. By reinforcing each of these principles, we have continued to provide value and have been rewarded with very loyal customers.

There is another side to this picture. We have potential to do an even better job keeping up with where and how money is being spent in the North. This translates into a real opportunity to accelerate sales growth by capturing a larger share of our customers' spending dollars through expanding our perishable food business, growing more new businesses like our *Quickstops*, and by creating an even larger role for direct order formats like our Selections catalogue, where sales increased by 17.0% this year.

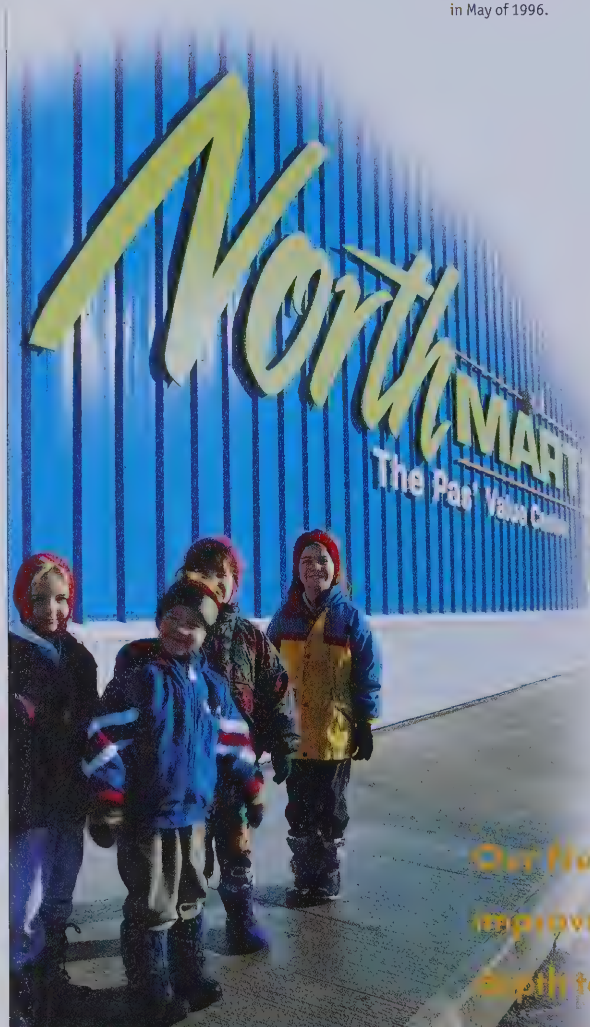
Q: How are government cutbacks affecting consumers in the North? And how can the Company respond?

A: Government layoffs and lower social benefit payments have hurt the Canadian North and our business, particularly over the past three years. This has caused us to shift towards new categories and more basic, lower price points such as food, while controlling credit and operating costs. Looking past the next year or so, private sector resource investment, land claim settlement funds and pent-up demand for federal spending on housing, all support a brighter economic picture.

The Quickstop format has grown to 37 units and $15 million in sales over the past three years.

QUICKSTOP – STRONG SALES

The Company opened a *Quickstop* in Baker Lake in May of 1996.



Q: The Company has been developing *NorthMart* and *Quickstop* as new formats. How are they performing and what are your roll-out plans?

A: We have two *NorthMarts* and will be opening a third in the Fall of 1997. This concept emphasizes superior perishables, a special buys 'power aisle' program, brand name apparel and services like longer hours, one-hour photo, fast food and our "Points North" loyalty program. Sales growth has been exceptional but margins have not. Our priority in 1997 will be margin improvement, together with building management depth to support more stores.

The *Quickstop* format has grown to 37 units and $15 million in sales over the past three years. They are making a solid contribution. Most of these units are within existing stores but future growth will be in a larger, stand-alone format with two opening in 1997.

Our *NorthMart* priority in 1997 will be margin improvement and building management depth to support more stores.

NORTHMART – A WINNING CONCEPT

In November of 1996, a *NorthMart* was opened in The Pas, Manitoba.

Q: The issue of Aboriginal self-determination is becoming more important and more complicated. How does this affect The North West Company?

A: We are committed to supporting our Aboriginal customers and the Aboriginal communities we serve and live in. This means we are present at the national, regional and First Nations levels to listen, understand and be part of the solution. In 1990, we were the first major company to step forward and publicly support Aboriginal self-determination. In December 1996, we created a national Aboriginal Relations Council, composed of Aboriginal leaders from across Canada, two Aboriginal members of our Board of Directors and chaired by Len Flett, an Aboriginal member of our senior management team. This year, we have endorsed in principle the findings of the Royal Commission on Aboriginal Peoples and its key recommendations aimed at reversing the marginalization of Aboriginal society. At the store level, being part of the solution means increased participation of Aboriginal people in management positions, the success of our Healthy Living Program and our ability to structure business partnerships with Aboriginal development corporations across the North.

Q: Corporate debt remains at historically high levels. How much of a concern is this?

A: Our pre-tax cash flow was $47.5 million or 8.0% of sales. We ended the year with a debt to equity ratio of 1.19 : 1 compared to 1.27 : 1 in January 1996. Our target is 1 : 1, and we expect to reach this level by the end of 1997 based on increased cash flow while maintaining capital spending at current levels.

Q: You have remained as Chairman and CEO of the Alaska Commercial Company, while taking on responsibilities of President and CEO of The North West Company. How can you effectively manage both jobs?

A: With Jerry Bittner's appointment as President of **AC**, and the experience of our management team in Anchorage, my involvement will be active, but not day-to-day. As well, we have developed more links between **AC** and NWC in support activities like accounting, systems and store planning. This means that management is more integrated between the two companies at more levels. This, combined with an active role by our Chairman, Ian Sutherland, will produce a very effective allocation of leadership responsibilities.

Members of the national Aboriginal Relations Council in a meeting at Gibraltar House. Left to right: Charles Fox, Grand Chief, Nishnawbe-Aski Nation; John McFerran, Vice-President, Human Resources; Stanley McKay, Director, Dr. Jessie Saulteaux Resource Centre; Donald Robertson, Dean, Aboriginal Education and Institutional Diversity, Red River Community College; Phil Fontaine, Grand Chief, Assembly of Manitoba Chiefs; Len Flett, Managing Director, Store Development and Public Affairs; Dave Brears, Retired Vice-President; Bill Douglas, Vice-President, Retail Operations; Ian Sutherland, Chairman of the Board; Nellie Cournoyea, Chairperson and Chief Executive Officer, Inuvialuit Regional Corporation. (Missing from photograph: Edward Kennedy, President and Chief Executive Officer; Tagak Curley, Director, Business Development, Nunavut Tunngavik Inc.; Billy Diamond, Chief, Waskaganish Cree First Nation).

We are committed to supporting our Aboriginal customers and the Aboriginal communities we live in.

FINDING NEW SOLUTIONS

Operating Initiatives
Canadian

1996 REPORT CARD

Goal	Result
1. Achieve the 1996 sales and margin plans: • Increase **Northern** sales by 4.2%	• Canadian sales increased 0.9%. Food sales outpaced an industry sales decline with a 3.7% increase. General merchandise sales were down 3.9%.
• Reduce markdowns, shrink and improve overall margins.	• Markdowns were reduced by $1.5 million. Shrink was reduced by $2.1 million and gross margins improved by 1.9%.
• Complete the Store Merchandise Assortment Re-profiling Project.	• All but 23 stores were re-profiled.
• Implement the team management approach in the remaining two regions.	• All regions now operate under this concept.
• Tailor advertising to newly-defined market types and customers profiles.	• Completed as planned.
• Roll-out the "Points North" customer loyalty program to 11 markets.	• "Points North" was successfully rolled out to 12 new markets.
2. Design a "People First" initiative incorporating improved recruitment, training and reward programs and focusing on key successful traits of our Company culture to increase profitability.	• A multi-year plan to reinforce our customer focus was developed and several recommendations were made by year-end.
3. Improve our business processes through the "Business Innovation Project:"	
• Implement the new Merchandise Management System.	• The *Retek*™ Merchandise Management System has been installed and is partially functional. Further functions will be implemented through 1997.
• Achieve scanning of all food and general merchandise.	• Total food scanning and retrieval was achieved by September, and general merchandise sales began at the end of the fourth quarter.
• Centrally manage all item and price information.	• Centrally managed item files have been achieved, however, the central management of the price files is not complete.
• Implement training programs for the new systems.	• The appropriate training programs have been implemented.
4. Convert The Pas store to the *NorthMart* format and open two new stand-alone *Quickstop* convenience stores.	• The *NorthMart* at the Pas opened on schedule on November 4. • A stand-alone *Quickstop* in Happy Valley will open in April 1997. The second location was postponed pending the site availability.

Operating Initiatives Alaskan

1996 REPORT CARD

Goal	Result
1. Reposition under-performing stores:	
• Tailor positioning to the market opportunity.	• Food selling space expanded in all stores.
• Downsize or eliminate hardware, marina, furniture and electronics categories in problem stores, invest in perishables, club-pack foods, basic apparel, housewares, domestics, seasonal hardlines, a "Power Aisle" value program and add more third party or owned services such as banking, pharmacy, post offices and fuel dispensing.	• Non-food categories downsized as planned. • First National Bank of Anchorage ATM's were installed in 17 **AC** store locations. • Progress was made on post office and pharmacy openings for 1997-98.
• Reset the layout and merchandise assortment in three large stores and three small stores.	• The reset / remodel of three large stores and five small stores was completed.
2. Aggressively pursue cost reduction opportunities:	
• Continue to integrate infrastructure with NWC.	• Cost reductions achieved through integration of **AC** and NWC accounting, information systems, construction and loss prevention activities.
• Reduce advertising costs by 30% through lower rates and more efficient vehicles.	• Advertising costs reduced by 31%.
• Convert to co-generation at three stores to reduce power costs.	• Co-generation project cancelled in favour of stand-alone generation.
• Consolidate operations management activities in Kodiak Region.	• Kodiak management activities consolidated.
• Generate cash from discontinued businesses.	• $1.5 million generated from reduced inventory investment.
3. Discontinue or downsize low potential, unprofitable businesses:	
• Close Dutch Harbor, Cordova, McGrath and Dillingham Home Centers.	• Home Centers closed as planned.
• Discontinue Marina operations at all locations by year-end with exception of the Bethel Marina and a limited offering in a few small stores.	• Marina operations consolidated to Bethel Marina, St. Michael's and Unalakleet.
4. Complete installation of NWC POS and store productivity information system solutions in large stores by the end of second quarter, and in half of the small stores by year-end.	• POS installations were completed in six large stores. Remaining stores will not be completed until 1997.

1997 Key Initiatives

CANADIAN OPERATIONS

Our Canadian key initiatives focus on meeting our sales and margin targets; improving the profitability of our new formats; completing most of our "Business Innovation Project;" and launching a new people development program called "People First." These are some of the performance goals:

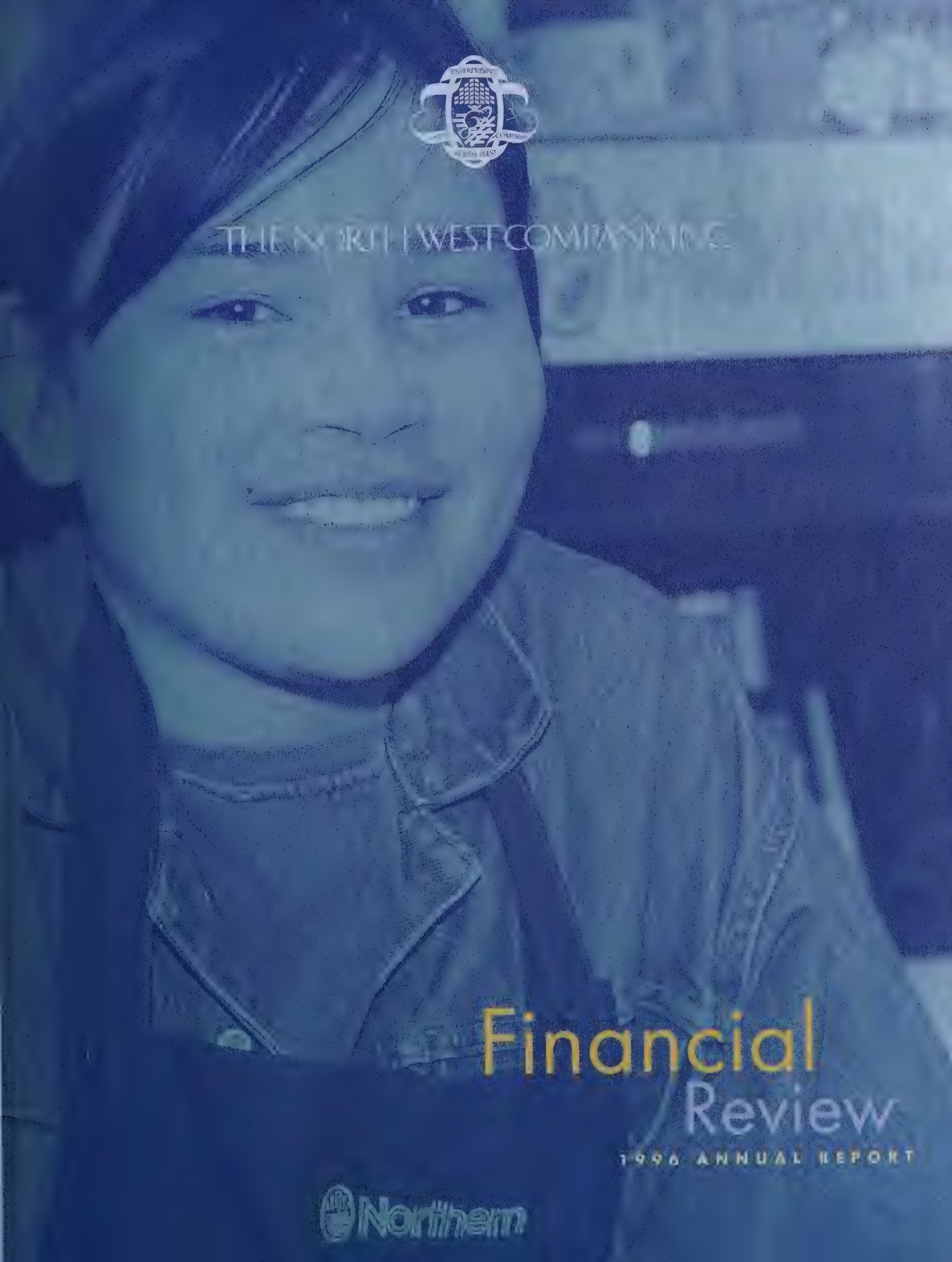
1. Grow comparable store sales by 2.8% in foods and 1.3% in general merchandise.
2. Improve gross margin rates by 0.3%.
3. Increase inventory turns by 6.0%.
4. Increase operating margin of 20 under performing stores by 20%.
5. Achieve satisfactory profitability levels for *NorthMart*.
6. Successfully open at least two stand-alone *Quickstop* locations.
7. Through "People First," increase Aboriginal representation in store management by 33%.
8. Implement the *Retek*™ Merchandise Management System and process changes fully for general merchandise and complete the design for food.

ALASKAN OPERATIONS

Alaska's key initiatives for 1997 are aimed at achieving sales and margin targets; securing long-term positioning in **AC**'s three largest markets; continuing to build the perishables business; improving people strength in the stores; implementing an effective loss prevention program; completing integration of **AC** and NWC support activities; and meeting cost reduction targets. These are some of the performance goals:

1. Achieve a 3.1% increase in comparable food sales and 2.6% increase in comparable general merchandise sales.
2. Improve gross margin rates by 1%.
3. Reduce store operating expenses by $1.2 million.
4. Realize $800,000 in payroll and related overhead expense savings from 1996 year-end reductions.
5. Complete investment plans for three largest markets.
6. Achieve 10% increase in perishables gross margin contribution.
7. Complete POS rollout.
8. Launch management development program.
9. Reduce inventory shrink by targeted amounts.

A key Canadian initiative focuses on improving profitability of our new formats...



THE NORTH WEST COMPANY INC.

Financial Review

1996 ANNUAL REPORT

Management's Discussion and Analysis

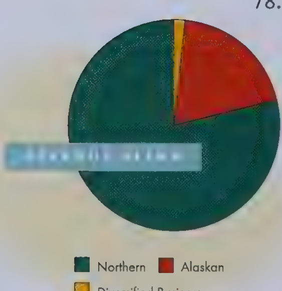
CORPORATE OVERVIEW

Revenue and Earnings (in Canadian dollars)

The North West Company ("NWC") reported record earnings of $17.9 million for 1996 to $1.18 per share from $0.68 last year before a $16.1 million provision for losses on disposition of assets. Operating profits increased by 31.5% in 1996 to $43.2 million compared to $32.9 million in 1995. Revenues decreased 0.2% to $590.6 million. The major highlights of 1996 included:

- Operating profits from Canadian operations at $43.0 million increased $8.1 million or 23.2%.
- **Northern** food sales increased by 3.7%.
- **Northern** opened two new stores in new markets. In addition, two replacement stores were built, seven stores underwent major renovations and re-fixturing, and decor upgrade projects were completed in 11 stores.
- Alaska Commercial Company ("**AC**") operations returned to profitability posting an operating profit of $191,000 compared to an operating loss, before provision for disposition, of $2.1 million last year.
- Pre-tax cash flow was $47.5 million compared to $35.5 million last year.
- The creation of the North West Company Fund was announced to increase shareholder value through a more tax effective corporate structure.

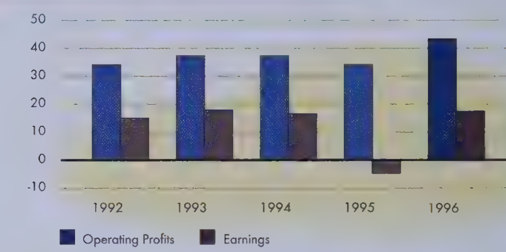
Northern operations in Canada accounted for 78.9% of total revenue. Alaskan operations contributed 19.7%, while Diversified Business made up the balance of 1.4%.



Operating profits and earnings returned to the trend established over the last five years after the disappointing results in 1995. Operating profits increased 31.5% over 1995 and 12.4% over 1994. Earnings rebounded to $17.9 million after the loss of $5.2 million in 1995 and a profit of $16.2 million in 1994.

Canadian operations had 3,725 employees at year-end compared to 3,779 last year. Alaskan operations decreased their staff count from 704 last year to 645 this year as a result of the downsizing in the Anchorage office, and the discontinuation of unprofitable store formats.

OPERATING PROFITS & EARNINGS [$ in millions]



Capital Expenditures

Capital expenditures in 1996 were $23.0 million compared to $29.7 million in 1995. Capital spending in Canadian operations amounted to $20.2 million and $2.8 million was spent in Alaska. Disposals were $1.7 million in 1996.

Interest Expense

Interest expense at $11.8 million was 5.6% less than in 1995 due to lower short-term interest rates in Canada. The average cost of debt decreased to 6.52% from 7.02% in 1995. The average debt outstanding during the year was $181.8 million, 1.7% higher than 1995. Consolidated debt, at the end of January 1997, was $175.0 million which was 1.8% lower than a year earlier while net assets employed increased 1.3% to $322.4 million. Fixed rate financing was limited to $40.0 million in swaps outstanding for an average of two years. NWC believes that the premium to fix interest rates during 1996 was excessive and, therefore, has chosen to finance the majority of credit facilities using short-term instruments.

Coverage ratios improved to 3.65 times interest compared to 2.63 times last year.

	1992	1993	1994	1995	**1996**
Coverage ratio	3.63	4.48	3.66	2.63	**3.65**
Operating profit ($)	33.4	38.1	38.4	32.9	**43.2**
Interest ($)	9.2	8.5	10.5	12.5	**11.8**

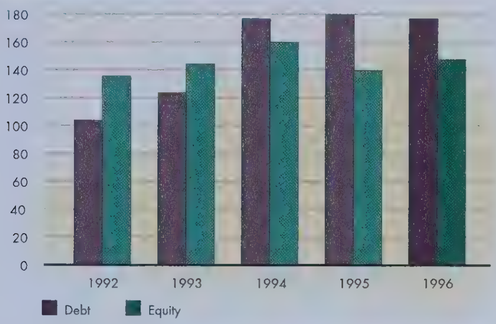
Income Taxes

NWC's effective income tax rate was 42.0% for its Canadian operations, which was unchanged from last year. The tax benefit of U.S. losses carried forward of $12.8 million has not been recognized in the financial statements. The provision for income taxes was $13.5 million.

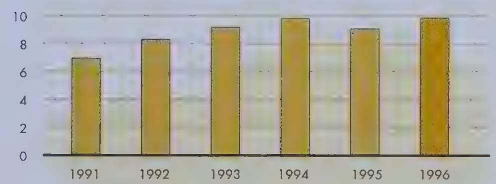
Financial Condition

On a consolidated basis, NWC had $175.0 million in debt and $147.4 million in equity at the end of the year, with a debt to equity ratio of 1.19 : 1 versus 1.27 : 1 at January 27, 1996. Cash flow from operations remained strong at $31.7 million, due to continued improvement in inventory turnover.

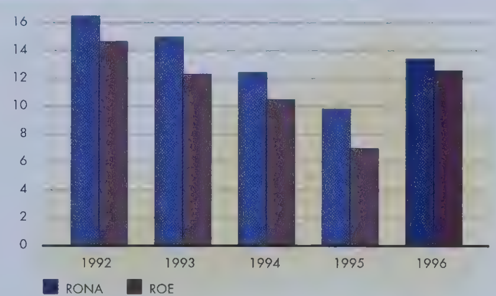
CAPITAL STRUCTURE - JANUARY [$ in millions]



[$ per share]



RETURN ON NET ASSETS & EQUITY [%]



Canadian operations held inventories flat with last year. Alaskan operations decreased inventories by 11.2 % partially due to the reprofiling of assortments and the phasing out the marina and home center operations. Accounts receivable balances increased due to higher balances granted to individuals and bands in areas where credit experience has been favourable.

No new debt was issued or required in 1996. In addition to the $112.0 million in bonds outstanding, NWC has $85.5 million in unsecured operating lines of credit with banks in Canada and the United States of which $39.5 million has been drawn at the end of the year. Long-term debt was reduced by $7.5 million.

NWC converted a portion of its bond issue to U.S. dollars which serves to hedge foreign currency fluctuations on the majority of its U.S. assets.

The improvement in NWC's capital structure is reflected in the accompanying chart.

Book value per share at the end of the year was $9.82 increasing $0.80 or 8.9% from last year.

The number of shares outstanding at January 25, 1997 was 15,000,000 compared to 15,519,000 on January 27,1996. The average shares outstanding before dilution for 1996 were 15,095,277, down from 16,039,609 in 1995.

In June 1996, NWC re-applied to continue the normal course issuer bid program that was initiated in 1995. Approval was granted to purchase up to 1.0 million of its shares. During 1996, NWC purchased 519,000 shares under these programs at an average price of $7.54 per share. NWC has not repurchased any shares since July 1996.

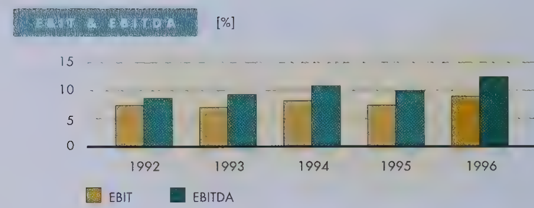
On January 25,1997, there were 338,300 options outstanding which have been issued to officers at exercise prices between $7.50 and $18.75, of which 152,347 have been vested.

NWC produced a return on net assets (RONA) of 13.4% in 1996 compared to 9.8% in 1995. Return on equity (ROE) was 12.7% versus 7.0% in 1995 before the provision for loss on disposition of assets.

CANADIAN OPERATIONS

Canadian revenue of $474.5 million increased 0.9% from last year (0.8% on a comparable store basis) while operating profit increased 23.2% to $43.0 million, compared to $34.9 million in 1995. Comparable food sales delivered a healthy increase of 2.9% which exceeded the industry average decrease of 1.8% as published by Statistics Canada. Meat and produce sales reported the strongest categories, up 7.5% and 5.9% respectively.

General merchandise sales strengthened gradually during the year and were strongest in the fourth quarter with a 3.8% increase in comparable stores. Selections catalogue sales increased 17.0% to $17.0 million due to increased emphasis on products not carried in the stores on a regular basis. Comparable general merchandise sales for the year decreased 3.0% compared to the Canadian average increase in Department Store Type Merchandise (DSTM) of 2.6% reported by Statistics Canada. The lack of consumer confidence was more evident in the general merchandise categories as these expenditures tend to be more discretionary in periods of uncertainty. General merchandise sales were negatively impacted by reductions in welfare payments and by other deficit reduction initiatives taken by the federal, provincial and territorial governments. Cutbacks of higher paying government jobs by the Northwest



Territorial government were particularly harsh in larger administrative communities. These reductions were offset in some areas, particularly in Manitoba by the settlement of First Nations claims related to tobacco taxes.

Comparable softline categories were down 3.5%, with footwear down 7.4% and children's wear down 4.3%. Men's wear was the strongest in the softline group with a 0.5% sales increase. Hardlines sales were off 5.3% for the year, with home furnishings and motorized showing the largest decreases. Part of the increase in Selections sales was due to an expanded offering providing a broader range of merchandise than the average **Northern** store can carry.

Sales per selling square foot were $851 for food ($870 in 1995) and $252 for general merchandise ($266 in 1995). Store inventory turnover improved to 3.91 turns from 3.81 turns in 1995, due to re-profiling and greater emphasis on clearing aged merchandise.

Being in-stock in basic merchandise is a key marketing and operating philosophy of **Northern**. During the year, basic merchandise in the stores was balanced to improve currency and customer fill rates. Inventories in the Retail Service Center were reduced 24.8% as demand from the stores smoothed due to increased confidence in orders being filled on a consistent basis which, in turn, also reduced stock levels in the stores.

Gross margins from Canadian operations were 35.4% in 1996, compared to 33.5% in 1995. This improvement was the result of reduced product costs achieved by more direct purchases, increased volume incentive allowances, lower freight rates and reduced shrinkage. The category management project initiated in 1995 continued to eliminate low margin and low turn categories which were replaced by the expansion of more profitable categories. Shrinkage results improved by 0.5 points due to increased emphasis of store staff toward loss prevention programs in the stores and improved paper controls implemented in our administrative office.

Total expenses were well controlled increasing 2.1% over 1995. Occupancy costs increased 6.2% due to the capital projects initiated in 1995 and 1994 in the **Northern** stores group. Debt losses decreased by $2.1 million in 1996 due to higher levels of recoveries related to debt losses incurred in 1995.

Operating profit (EBIT) advanced to 9.1% of sales from 7.4% in 1995 due to the 1.9% increase in gross margin rate and tight control over expenses. Operating profit before depreciation and amortization (EBITDA) increased to 12.1% from 10.1% in 1995. The trend from 9.0% in 1992 demonstrates the fundamental strengths of the Canadian operations.

Capital expenditures in **Northern** totaled $16.1 million in 1996 versus $25.6 million in 1995. Expenditures of $9.0 million were directed to the replacement or major renovation of 18 stores and the acquisition of two new stores, and $7.1 million was spent on minor renovations, equipment replacements and support facilities. Spending on transportation and distribution was $0.5 million, while $3.5 million was invested on systems related to the installation of point-of-sale registers and PC's in stores and a new head office client server based Merchandise Management System. Capital spending in 1997 in Canada is expected to be approximately $20 million. Major components of the 1997 plan include the purchase or construction of three new stores in new markets, and the renovations to 15 existing stores.

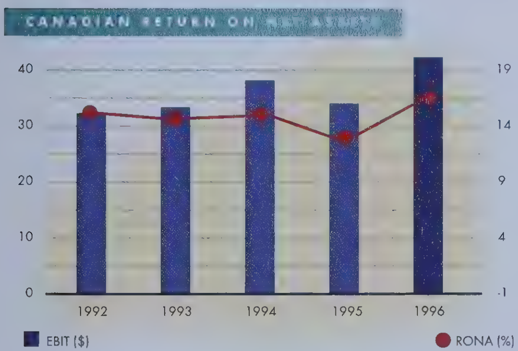
Northern added 22,700 square feet of selling space in 1996, an increase of 3.1%. These additions were split between 2,700 square feet in new locations and 20,000 square feet from the expansion of existing stores to strengthen our dominant position in key regional communities. The majority of new space was allocated to the food selling area. Two smaller **Northern** stores were opened in new markets during 1996. One store with 4,500 square feet was permanently closed during the year. One store was temporarily closed due to a land settlement dispute and a third store, which is the only unionized store in the **Northern** chain, has been temporarily closed, since November 19, 1996, due to a strike. In November 1996, the Company opened its 8,400 square foot extension of a food store acquired in The Pas, Manitoba to complete its conversion into a *NorthMart* combination format.

Diversified Business

Revenues in our Diversified Business group, which includes seven Fur and Heritage Marketing stores, the Inuit Art Marketing Service and the Blanket Division, reported sales of $8.8 million compared to $8.5 million last year and an operating profit of $1,009,000 versus $767,000 in 1995. Fur sales were up 14.0% in the Fur Marketing stores and 46.8% in the **Northern** stores due to improved prices and renewed interest in trapping. Inuit art sales increased by 12.2% due to strengthening demand, especially in the corporate sector

and export markets. Blanket Division revenues of $1.0 million increased 7.4% in 1996, and generated operating profits of $32,000. The Blanket Division operations will be discontinued in 1997 as the distribution agreement with the Hudson's Bay Company expires.

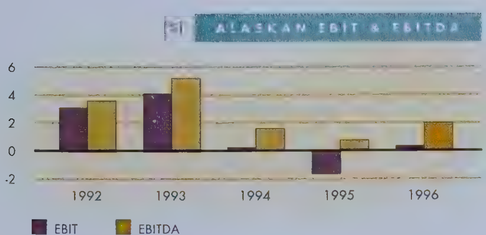
The EBIT results and return on net assets of Canadian operations are summarized in the chart below.



ALASKAN OPERATIONS (in U.S. dollars)

Alaska Commercial Company returned to profitability in 1996 delivering an operating profit of $140,000, compared to a loss of $1.5 million in 1995. Sales decreased by 4.9% for the year and were down 4.3% on a comparable store basis as a result of the reprofiling initiative. Gross margins improved 0.9 points to 30.7% reflecting the strengthened controls adopted in 1996. The expense rate decreased from 31.4% to 30.5% due to expense reduction programs initiated during the year. Inventories at $14.9 million were $1.9 million or 11.2% less than last year.

The EBIT results and EBITDA of Alaskan operations are summarized in the chart below.



The transition to becoming a more focused retailer, with an emphasis on the fresh food categories and every day basics, resulted in lower inventories and improved margins.

The instalation of **Northern's** present systems has positioned **AC** to take full advantage of the current systems used by its Canadian parent and the new systems that are being installed in 1997 and 1998.

AC will benefit from the transfer of support services to NWC's Winnipeg head office. The majority of responsibilities for support functions such as loss prevention, accounting, information systems, construction and store planning have been transferred to Winnipeg, while maintaining sufficient management in Alaska to direct and coordinate these activities. Many of these changes were implemented in the fourth quarter and will allow **AC** to achieve further economies without sacrificing any service that directly impacts our **AC** customers. These cost reductions, along with the recent strengthening of sales and improved margins, are expected to improve returns in 1997.

Capital expenditures in 1996 were $2.1 million, the majority of which related to the installation of point-of-sale and computer systems that will enable **AC** to reduce operating costs in the future by leveraging off support services that can be provided by the corporate group in Winnipeg. No new stores were added in 1996. Capital spending in 1997 is expected to be approximately $2.0 million and will be directed at completion of infrastructure systems and the remodel of three large stores. At January 25, 1997, **AC** employed net assets of $40.2 million compared to $40.7 million last year.

RISKS

NWC is exposed to the normal business risks of the retail marketplace. Our goods and services are not dependent on any one supplier nor is success based on any one store or cluster of stores. The remoteness and size of the markets serviced make it difficult for traditional retailer chains to compete because of the high cost of entry. Southern-based retail competitors can access remote markets via catalogues, televised home shopping and Internet shopping and provide alternatives to customers primarily in the non-perishable categories. The risk of a significant expansion of major retailers into our markets is unlikely due to the small size of the markets serviced by our stores and the high cost of entry. No new retail chains have expanded into our markets in 1996 and none are expected in 1997. Stores in our communities also compete with customers out-shopping in major regional centres when they leave their home communities for vacation, business or medical purposes.

One of the main risks to NWC is the maintenance of healthy relationships with the customers we serve. NWC was the first Canadian corporation to publicly endorse the Aboriginal community's desire for self-government. We recognize the need to significantly increase the participation of Aboriginal people in all facets of NWC from the sales floor, through the management ranks, to board representation and ownership participation. We support the recommendations of the report of the Royal Commission on Aboriginal Peoples released in 1996, which concluded that "the main policy direction, pursued for more than 150 years, first by the colonial then by Canadian Governments, has been wrong." Assimilation policies have failed. The long-standing claims must be addressed and settled "to repair the damage to the relationship and enter the next millennium on a new footing of mutual recognition and respect, sharing and responsibility."

Many of our Canadian Aboriginal customers are dependent, to a varying extent, on the continuation of basic social support programs provided by the Canadian Government. While deficit reduction initiatives are necessary, we believe that many of the statutory obligations, especially to the most needy, will be maintained and hope that some of the long-standing grievances of the Aboriginal peoples will be addressed. The February 1997 budget was relatively silent on specifics related to spending on Canadian Aboriginal people; however, there was a reference that the rate of growth in the transfer program is being restrained but funding will still increase. Aboriginal children will benefit from the improvements proposed to the Canada Child Tax Benefit and the Youth Employment Strategy Programs. Further settlements of land, hydro and user tax claims, along with the move towards self-government, are positive trends in our markets.

The Company's Alaskan markets generally have a more diversified, stronger economic base. Four locations, representing 30% of **AC**'s sales, are not as stable because they derive a significant amount of employment from commercial fishing. Local competition from major retailers, although limited to 25% of **AC**'s sales base, is more intense in Alaska compared to the Company's Canadian markets.

RISKS RELATED TO FINANCING

In order to carry on its operating activities, NWC must arrange for the appropriate financing from various financial institutions. NWC endeavors to achieve the following objectives when arranging for financing of its operations:

- to maintain a debt to equity level which will continue to allow NWC access to capital markets while allowing NWC to generate acceptable returns for shareholders;
- to maintain a level of debt which is viewed as appropriate by the marketplace for a business engaged in the retail industry; and
- to use a variety of financial instruments which will provide an appropriate mix of debt to ensure protection from adverse movements in interest and foreign exchange rates, and provide a reasonable cost of capital and an adequate level of liquidity.

NWC has issued senior bonds in the amount of $112 million and has also negotiated lines of credit with two Canadian banks. Financial instruments have been used to fix a portion of NWC's debt while other instruments have been used to allow a portion of NWC's debt to float at attractive short-term interest rates. NWC is subject to interest rate fluctuations on $72 million of its bond proceeds and $39.5 million in bank debt. Management foresees no difficulty in maintaining these credit arrangements in 1997.

NORTH WEST COMPANY FUND

On March 21,1997, the shareholders of NWC approved the Plan of Arrangement which converted their shares into units of the North West Company Fund, a mutual fund trust which assumed ownership of the former NWC.

The purpose of this arrangement, as outlined in the Information Circular dated February 17, 1997, was to enhance shareholder value. The benefits of the Arrangement include the following:

1. Trust unitholders will receive quarterly distributions equal to the pre-tax equivalent of the current dividend payments which will enhance their after-tax yield.
2. Distributions will increase at a similar rate to the earnings of NWC.
3. The arrangement results in an increase in distribution to all trust unitholders while NWC's ability to finance growth and debt reduction is not affected; and
4. It is anticipated that new investors will be attracted under this reorganized structure resulting in a more active and liquid market for trust units than the one that existed for NWC's common shares.

The arrangement became effective on March 27, 1997.

Management's Responsibility for Financial Statements

The management of The North West Company Inc. is responsible for the integrity of the accompanying financial statements and all other information in this annual report. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on the best estimates and judgment by management.

In order to meet its responsibility and ensure integrity of financial reporting, management maintains accounting systems and appropriate internal controls and an internal audit function designed to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded and that the financial records are reliable.

Final responsibility for the financial statements and their presentation to shareholders rests with the Board of Directors. The Audit Committee of the Board, consisting of outside directors, meets periodically with management and with the internal and external auditors to review the audit results, internal controls and accounting policies. The Audit Committee meets separately with management and the Company's external auditors, Price Waterhouse, to review the financial statements and recommend approval by the Board of Directors.

Price Waterhouse, an independent firm of auditors appointed by the shareholders, have completed their audit and submitted their report as follows.

Ian Sutherland

Ian Sutherland
President and Chief Executive Officer

Gary Eggertson

Gary V. Eggertson
Vice-President, Finance and Administration and Secretary
March 20, 1997

Auditors' Report

To the Shareholders of The North West Company Inc.

We have audited the consolidated balance sheets of The North West Company Inc. as at January 25, 1997 and January 27, 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 25, 1997 and January 27, 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Winnipeg, Canada

March 20, 1997

Consolidated Balance Sheet

(in thousands of Canadian dollars)	January 25, 1997	January 27, 1996
Assets		
Current assets		
Cash	$ 3,409	$ 5,168
Accounts receivable	55,110	49,708
Income taxes recoverable	-	925
Inventories	125,263	128,385
Prepaid expenses	1,357	1,746
	185,139	185,932
Capital assets (Note 2)	184,268	179,651
Other assets (Note 3)	12,183	10,364
	$ 381,590	$ 375,947
Liabilities		
Current liabilities		
Bank advances and short-term notes (Note 4)	$ 39,519	$ 35,202
Accounts payable and accrued	47,526	48,132
Income taxes payable	3,114	-
Current portion of long-term debt	280	337
	90,439	83,671
Long-term debt (Note 5)	135,228	142,736
Deferred income taxes	8,570	9,587
	234,237	235,994
Shareholders' Equity		
Share capital (Note 6)	93,605	96,844
Retained earnings	53,550	42,400
Cumulative translation adjustment (Note 7)	198	709
	147,353	139,953
	$ 381,590	$ 375,947

Approved by the Board

Director

Director

Consolidated Statement of Earnings & Retained Earnings

(in thousands of Canadian dollars)	Fiscal year ended January 25, 1997	Fiscal year ended January 27, 1996
Sales and other revenue	$ 590,583	$ 592,034
Cost of sales, selling and administrative expenses	(531,226)	(544,003)
Earnings before interest, taxes and amortization (EBITDA)	59,357	48,031
Amortization	(16,149)	(15,171)
Operating profit (EBIT)	43,208	32,860
Provision for loss on disposition of assets (Note 8)	–	(16,129)
Interest, including interest on long-term debt of $9,565 [1995 $6,173]	(11,843)	(12,548)
Earnings before income taxes (EBT)	31,365	4,183
Provision for income taxes less deferred of $1,017 [1995 $1,344] (Note 9)	(13,507)	(9,355)
Earnings (loss) for the year	17,858	(5,172)
Retained earnings, beginning of year	42,400	56,474
Dividends	(6,031)	(6,413)
Premium on shares purchased for cancellation	(677)	(2,489)
Retained earnings, end of year	$ 53,550	$ 42,400
Earnings (loss) per share (Note 10)		
Basic and fully diluted	$ 1.18	$ (0.32)
Basic and fully diluted before provision for loss on disposition of assets	$ 1.18	$ 0.68

Consolidated Statement of

Changes in Financial Position

(in thousands of Canadian dollars)	Fiscal year ended January 25, 1997	Fiscal year ended January 27, 1996
CASH PROVIDED BY (USED IN)		
Operating Activities		
Earnings (loss) for the year	$ 17,858	$ (5,172)
Non-cash items		
Amortization	16,149	15,171
Provision for loss on disposition of assets	–	16,129
Deferred income taxes	(1,017)	(1,344)
Amortization of bond warrant proceeds and interest rate fixing payment (Note 5)	(2,035)	(848)
(Gain) loss on disposal of capital assets	(368)	30
Changes in non-cash working capital components	1,126	16,051
Operating activities	31,713	40,017
Investing Activities		
Purchase of capital assets	(22,994)	(29,745)
Proceeds from sale of capital assets	1,653	987
Other assets	(1,865)	(2,034)
Investing activities	(23,206)	(30,792)
Financing Activities		
Issue of share capital	–	1,186
Purchase of shares for cancellation	(3,916)	(7,378)
Proceeds of long-term debt	–	123,794
Repayment of long-term debt	(5,728)	(75,596)
Financing activities	(9,644)	42,006
Dividends	(6,094)	(6,466)
CHANGES IN CASH POSITION	(7,231)	44,765
Effect of currency translation adjustment	1,155	(691)
Cash position, beginning of year	(30,034)	(74,108)
CASH POSITION, END OF YEAR	$ (36,110)	$ (30,034)
CASH POSITION IS COMPRISED OF		
Cash	$ 3,409	$ 5,168
Bank advances and short-term notes	(39,519)	(35,202)
	$ (36,110)	$ (30,034)

Notes to Consolidated Financial Statements

JANUARY 25, 1997

1. SIGNIFICANT ACCOUNTING POLICIES

General

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany amounts and transactions have been eliminated on consolidation.

Fiscal Year

The Company's fiscal year ends on the last Saturday in January. Accordingly, the 1996 fiscal year ended January 25, 1997 and the 1995 fiscal year ended January 27, 1996. Both years comprised 52 weeks.

Accounts Receivable

In accordance with recognized retail industry practice, accounts receivable classified as current assets include customer instalment accounts of which a portion will not become due within one year.

Inventories

Inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of inventories is determined primarily using the retail method of accounting.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the straight-line method at rates which will fully amortize the assets over their estimated useful lives, as follows:

Buildings	2% – 5%
Leasehold improvements	5% – 20%
Computer equipment and software	20% – 33%
Fixtures and equipment	8%
Transportation equipment	6% – 20%

Other Assets

The investments in transportation companies are accounted for on the equity basis. Deferred pension costs represent the actuarially determined excess of pension funding payments over pension expense. The forward foreign exchange receivable results from the transaction described in item 2 under note 5. The value of this asset floats with the exchange rate. Prepayments under lease agreements are being amortized over their respective lease terms. Deferred financing fees are being amortized over the terms of the loan agreements.

Pensions in Canada

Current service costs under the Company's pension plans are charged to operations as they accrue. The difference between the market value of pension fund assets and the actuarially determined present value of accrued pension obligations, as well as experience gains and losses, are amortized over the expected average remaining service life of the employee group. Actuarial valuations are calculated using the projected benefit method pro-rated on services, based on management's best estimate of future events.

Employee Savings Plan in Alaska

The Company sponsors an employee savings plan covering substantially all employees. Under the terms of the plan, the Company is obligated to make a 50% matching contribution up to 3% of eligible compensation, otherwise Company contributions are discretionary. Contributions to this plan are expensed as incurred.

Foreign Currency Translation

The accounts of Alaskan operations have been translated into Canadian dollars as follows: assets and liabilities, at the year-end exchange rate; revenues and expenses, at the average exchange rate for the period. Foreign exchange gains or losses arising from translation are deferred and included in a separate component of shareholders' equity as a cumulative translation adjustment.

2. CAPITAL ASSETS (in thousands of Canadian dollars)

	1996		1995	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 6,592	$ –	$ 6,232	$ –
Buildings & leasehold improvements	151,634	31,232	140,572	25,158
Fixtures and equipment	100,473	43,761	91,970	34,942
Transportation equipment	2,184	1,622	2,720	1,743
	$ 260,883	$ 76,615	$ 241,494	$ 61,843
Net Book Value		$ 184,268		$ 179,651

3. OTHER ASSETS

(in thousands of Canadian dollars)	1996	1995
Investment in transportation companies	$ 5,359	$ 4,461
Deferred pension costs	1,354	1,636
Forward foreign exchange receivable	2,586	1,524
Prepayments under lease agreements	1,019	1,089
Other	1,865	1,654
	$ 12,183	$ 10,364

Other includes deferred financing fees and redeemable deposits with suppliers.

4. BANK ADVANCES AND SHORT TERM NOTES

The Company has Canadian operating lines of credit of $80,000,000. These lines of credit have been obtained by the Company on an unsecured basis.

The Alaskan operation has an operating line of credit of $4,000,000 U.S. secured by assignments of accounts receivable and inventories.

5. LONG TERM DEBT

(in thousands of Canadian dollars)	1996	1995
Bonds	$ 112,000	$ 112,000
Deferred warrant proceeds	6,950	8,196
Deferred interest rate fixing payments	1,956	2,746
U.S. term loans	–	5,000
U.S. real estate loans	7,168	7,648
Manitoba Development Corporation	5,000	5,000
U.S. obligations under capital lease	2,184	2,233
Other long-term liabilities	250	250
	135,508	143,073
Less: Current portion	(280)	(337)
	$ 135,228	$ 142,736

On August 28, 1995, the Company issued $112 million of senior bonds at a blended interest rate of 12.36%, due August 28, 2002. Interest is payable semi-annually on February 28 and August 28. These bonds were issued by the Company on an unsecured basis. Deferred warrant proceeds, less expenses, represent the amount received related to the issuance of these bonds and are being amortized to income over their term resulting in an effective interest rate of 9.56 %.

The Company has the following financial arrangements in place including interest rate swap arrangements and a forward foreign exchange transaction with respect to the proceeds received from the issuance of these bonds.

1. The interest rate on $20 million was fixed at 8.20%, for a period of three years and the interest rate on $20 million was fixed at 8.61%, for a period of five years, both commencing on August 28, 1995.
2. A forward foreign exchange transaction was entered into whereby $42.828 million was converted on August 28, 1995, into $30 million U.S. This transaction, which terminates on August 28, 2002, results in the Company paying U.S. dollars at a fixed rate and receiving Canadian dollars at the same fixed rate which is equal to the bond interest rate.
3. An interest rate swap was entered into for $30.750 million U.S. whereby these funds were converted from fixed rate debt to floating rate debt. This swap terminates on August 28, 2002 and the Company pays a floating rate that is approximately 1.57% above the three month London Interbank Offered Rate (LIBOR).
4. An interest rate swap for $32.122 million was entered into whereby these funds were converted from fixed rate debt to floating rate debt. This swap, which terminates on August 28, 2002, increases to $52.122 million on August 28, 1998 when the fixed interest rate arrangements described in #1 expire. As a result of this swap, the Company pays a floating rate that is approximately 0.82% above the three month Canadian Banker's Acceptance rate.
5. An interest rate swap for $21.2 million was entered into which commences on August 28, 2000 and terminates on August 28, 2002. This swap converts the interest rate on these funds from fixed rate to floating rate once the arrangements described in #1 expire. The floating rate the Company will pay will be the same as described in #4.

As a result of these arrangements, the Company is subject to interest rate fluctuations on $72 million of its bond proceeds. Furthermore, the Company is subject to foreign currency fluctuations on the interest payments pertaining to the forward foreign exchange transaction and the U.S. swap.

The U.S. term loan, bearing interest at a floating rate of 1.75% over LIBOR, was secured by the Company's guarantee and pledge of its Alaska Commercial Company shares. The loan was repaid in 1996.

The Alaska Industrial and Economic Development Export Authority (AIDEA) and two Alaskan-based banks have provided long-term loans to assist in the financing of new stores. The remaining term of the loans is 13 years and the loans bear interest rates equivalent to 90 day commercial paper plus 2.6% for the AIDEA loans which represent 80% of the principal. The interest on the bank portion of these loans is approximately prime U.S. +0.75%. These loans are secured by the stores and related equipment.

The Manitoba Development Corporation loan of $5,000,000, provided to assist in the financing of the Winnipeg Retail Service Centre, bears interest at the rate charged by the Manitoba

Government to Crown Corporations and is repayable in four equal annual payments commencing December 31, 2000 and ending December 31, 2003. The loan is secured by a first fixed charge against the leasehold title to the land, a first fixed charge against the building, and a first fixed charge on all present and future processing equipment connected with the project. Interest is forgiven if the Company attains agreed upon annual job creation targets. The Company anticipates that the agreed targets will be met; accordingly, no interest has been accrued.

The U.S. obligation under a capital lease is repayable in blended principal and interest payments of $200,000 U.S. annually. The obligation will be fully repaid on October 31, 2013.

The bonds and related swap arrangements are the only financial instruments with fair values that vary significantly from carrying value. The fair value of the bonds as at January 25, 1997 was $20.2 million higher than the carrying value. However, this is offset by the fair value of $20.2 million in favor of the Company on the interest rate swap arrangements and the foreign exchange transaction with a credit worthy counterparty.

The Company's interest rate risk is directly attributed to both its bank advances and short-term notes as well as its long-term debt.

6. SHARE CAPITAL

Authorized

The Company has an unlimited number of common shares.

	1996		1995	
	No. of Shares	Share Capital	No. of Shares	Share Capital
Issued (in thousands)				
Balance, beginning of year	15,519	$ 96,844	16,164	$ 100,547
Issuer Bid	(519)	(3,239)	(783)	(4,889)
Officers stock option plan	–	–	138	1,186
Balance, end of year	15,000	$ 93,605	15,519	$ 96,844

Normal Course Issuer Bid

On June 18, 1996, the Company commenced a normal course issuer bid program on the Toronto Stock Exchange. Purchases will be limited to a maximum of 1,000,000 shares, with no more than 2% of the outstanding shares repurchased in any 30 day period and with the price being market at the time of acquisition. The program will terminate on June 17, 1997, or on such earlier date as maximum purchases are completed. To January 25, 1997, 103,000 shares had been repurchased. Under the prior year's program, the Company repurchased 1,199,000 shares of which 416,000 shares were purchased in the current fiscal year.

Officers Stock Option Plan

From time-to-time, the Board has granted options to certain officers of the Company at the market value of the common shares at that time.

During the year, 80,000 options were granted at an exercise price of $7.50 vesting equally over five years commencing March 19, 1997 and expiring March 19, 2003.

Officer stock option transactions were as follows:

	1996	1995
Outstanding, beginning of year	258,300	374,200
Granted	80,000	55,400
Exercised	–	(138,000)
Cancelled	–	(33,300)
Outstanding, end of year	338,300	258,300

At January 25, 1997, 338,300 options issued to eight officers of the Company to acquire common shares were outstanding. Of these, 152,347 options were vested and subject to expiry as follows:

	Number of Shares	
	Outstanding	Vested
March 19, 1998 at $14.125 per share	90,000	72,000
March 22, 1999 at $17.125 per share	22,900	15,267
August 3, 1999 at $18.25 per share	15,000	9,000
November 1, 1999 at $18.75 per share	75,000	45,000
March 23, 2002 at $9.75 per share	55,400	11,080
March 19, 2003 at $7.50 per share	80,000	–
	338,300	152,347

7. CUMULATIVE TRANSLATION ADJUSTMENT

The cumulative translation adjustment account represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the Company's net investment in self-sustaining Alaskan operations since the date of acquisition. The change in this account, as at January 25, 1997, is attributable to the strengthening of the Canadian dollar relative to the U.S. dollar during the year.

8. PROVISION FOR LOSS ON DISPOSITION OF ASSETS

The provision for loss on disposition of assets provided for losses on the disposition of marina and home center assets and a reduction in carrying value of certain stores that had been adversely affected by market conditions. The carrying value was reduced to a value that could be realized by sale, future cash flows or alternative use. The Company intends to continue to operate the stores until a sale or other disposition can be arranged.

9. INCOME TAXES

The Company's effective income tax rate is determined as follows:

	1996	1995
Combined income tax rate	41.3%	41.2%
Increase (decrease) in the income tax rate resulting from		
Income not subject to tax	(0.1)	(0.2)
Tax on large corporations	0.8	1.0
Effective Canadian income tax rate	42.0%	42.0%
Adjustment for non-recognition of tax benefits on U.S. losses	1.1	4.1
Adjustment for U.S. provision for loss on disposition of assets	–	177.6
Effective income tax rate	43.1%	223.7%

The Company's Alaskan operation has operating loss carryovers to offset future income for tax purposes. These expire at the rate of $2.8 million Canadian in 2009; $5.7 million in 2010, and $4.3 million in 2011. The future benefit of these loss carryovers has not been recorded in the Company's financial statements.

10. EARNINGS PER SHARE

Earnings per share are based on the weighted average number of common shares outstanding during the year.

Fully diluted earnings per share have been calculated on the assumption that all outstanding vested options were exercised at the beginning of the year. Funds derived from the exercise of options were assumed to have been used to retire debt with an effective annual rate of 6.0%, or 3.5% after tax (1995 7.8% or 4.5% after tax).

11. SEGMENTED INFORMATION

(in thousands of Canadian dollars)

The Company operates predominantly within the retail industry in northern Canada and Alaska. The following information is presented for the two business segments of the Company:

		Canada	Alaska	Total
Sales and other revenue	**1996**	**$474,465**	**$116,118**	**$590,583**
	1995	470,306	121,728	592,034
Operating profit	**1996**	**43,017**	**191**	**43,208**
	1995	34,916	(2,056)	32,860
Earnings before interest, taxes and amortization (EBITDA)	**1996**	**57,198**	**2,159**	**59,357**
	1995	47,451	580	48,031
Identifiable assets	**1996**	**268,447**	**53,933**	**322,380**
	1995	262,226	56,002	318,228

12. PENSIONS

The Company maintains defined benefit pension plans for its Canadian employees. The plans provide pensions based on length of service and final average earnings. The Company's accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 1995. At January 25, 1997, the plans' obligations are estimated to be $32,844,000 (1996 $30,833,000) and the net assets available to provide these benefits are estimated to be $34,310,000 (1996 $32,510,000).

13. OPERATING LEASE COMMITMENTS

The Company leases the land on which the Winnipeg Retail Service Centre is located from the City of Winnipeg for $1 per year for 15 years subject to attaining agreed-upon job creation targets. The Company anticipates that the agreed targets will be met; accordingly, no additional lease payments have been accrued. The Company is obligated to buy the land for the greater of $1,710,000 or fair market value at August 31, 2007.

The Company has future commitments under operating leases as follows:

(in thousands of Canadian dollars)

Years Ending January	Minimum Lease Payments
1998	$7,782
1999	5,316
2000	4,957
2001	4,778
2002	4,731
Thereafter	38,708

14. COMPARATIVE AMOUNTS

The comparative amounts have been reclassified to conform with the current year's presentation.

15. SUBSEQUENT EVENT

On February 17, 1997, the Board approved a Plan of Arrangement which, subject to shareholder approval, will indirectly exchange the existing common shares for units of the North West Company Fund.

Six Year Financial Summary

(in thousands of Canadian dollars)	1996	1995	1994	1993	1992	1991
Consolidated Statement of Earnings						
Sales and other revenue – Canadian operations	$ 474,465	$ 470,306	$ 470,890	$ 451,014	$ 447,604	$ 410,879
Sales and other revenue – Alaskan operations	116,118	121,728	115,352	97,665	25,106	–
Sales and other revenue – Total	590,583	592,034	586,242	548,679	472,710	410,879
Operating profit – Canadian operations	43,017	34,916	38,383	34,017	32,577	32,054
Operating profit – Alaskan operations	191	(2,056)	49	4,037	794	–
Operating profit – Total	43,208	32,860	38,432	38,054	33,371	32,054
Amortization – Canadian operations	14,181	12,535	10,377	8,949	7,703	6,797
Amortization – Alaskan operations	1,968	2,636	1,828	1,150	170	–
Amortization – Total operations	16,149	15,171	12,205	10,099	7,873	6,797
Provision for loss on disposition of assets	–	16,129	–	–	–	772
Interest	11,843	12,548	10,472	8,457	9,157	11,297
Income taxes	13,507	9,355	11,721	12,435	9,507	9,130
Pre-tax cash flow	47,514	35,483	40,165	39,696	32,334	29,622
Pre-tax earnings	31,365	4,183	27,960	29,597	24,214	21,529
Earnings (loss) from continuing operations	17,858	(5,172)	16,239	17,162	14,707	12,399
Provision for discontinued operations	–	–	–	–	247	524
Earnings (loss) for the year	17,858	(5,172)	16,239	17,162	14,954	12,923
Cash flow from operating activities	31,713	40,017	2,420	15,712	18,123	36,461
Dividends	6,031	6,413	6,466	5,810	5,182	4,289
Capital expenditures	22,994	29,745	58,476	33,304	26,370	11,275
Consolidated Balance Sheet						
Current assets	$ 185,139	$ 185,932	$ 204,253	$ 182,735	$ 174,486	$ 152,200
Fixed assets	184,268	179,651	179,822	145,255	122,024	90,014
Other assets	12,183	10,364	8,359	3,065	1,902	–
Current liabilities	90,439	83,671	135,591	83,788	87,142	94,772
Long-term debt	135,228	142,736	85,939	87,833	66,382	45,000
Deferred income taxes	8,570	9,587	10,930	11,782	9,542	8,310
Shareholders' equity	147,353	139,953	159,974	147,652	135,346	94,132
Consolidated Per share ($)						
Basic and fully diluted before provision for loss	$ 1.18	$ 0.68	$ 1.00	$ 1.06	$ 1.05	$ 0.93
Net earnings (loss) – fully diluted	1.18	(0.32)	1.00	1.06	1.05	0.93
Cash flow from operations	2.10	2.50	0.15	0.97	1.27	2.73
Pre-tax cash flow	3.15	2.21	2.48	2.46	2.26	2.22
Pre-tax equivalent dividend	0.70	0.70	0.70	0.63	0.63	0.56
Dividends paid	0.40	0.40	0.40	0.36	0.36	0.32
Shareholders' equity at end of year	9.82	9.02	9.90	9.13	8.41	6.88
Market price at end of year	11.00	8.50	9.88	17.25	15.13	16.13
Statistics at year end						
Number of stores – Canada	159	160	163	166	161	160
Number of stores – Alaska	27	28	28	20	20	–
Number of employees – Canada	3,725	3,779	3,728	3,788	3,649	3,725
Number of employees – Alaska	645	704	660	509	467	–
Average number of shares outstanding	15,095	16,040	16,164	16,130	14,307	13,353
Number of shares outstanding at end of year	15,000	15,519	16,164	16,164	16,097	13,673
Financial Ratios						
Operating profit (%)	7.3	5.5	6.6	6.9	7.1	7.8
EBITDA (%)	10.1	8.1	8.6	8.8	8.7	9.5
Return on net assets (%) Total	13.4	9.8	12.5	14.9	16.2	17.2
Return on average equity before provision (%)	12.7	7.0	10.6	12.3	14.6	14.9
Pre-tax equivalent dividend as % of pre-tax cash flow	22.2	31.6	28.2	25.6	27.9	25.2
Inventory turnover	3.0	2.8	2.8	3.1	3.1	3.0

Shareholder/Unitholder Information

ANNUAL STOCK PRICES AND VOLUMES (TSE)

Fiscal Year Ending	Volume	High	Low	Close
January 1997	**6,862,302**	**11.500**	**6.750**	**11.000**
January 1996	5,872,872	11.750	8.000	8.500
January 1995	3,691,071	18.000	9.750	9.875
January 1994	7,351,617	20.250	14.750	17.250
January 1993	7,428,817	16.125	13.250	15.125
January 1992	2,409,462	16.500	5.250	16.125

Annual Meeting

North West Company Fund's Annual Meeting of Unitholders will be held Thursday, May 29, 1997 at 11:30 am in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba.

Transfer Agent and Registrar
The R-M Trust Company
Winnipeg, Montreal, Toronto,
Regina, Calgary, Vancouver

Stock Symbol
NWF.UN

Stock Exchange Listings
The Toronto Stock Exchange
The Winnipeg Stock Exchange

1997 Financial Calendar – Reporting Dates

First Quarter	May 29, 1997
Second Quarter	September 3, 1997
Third Quarter	December 10, 1997
Fourth Quarter	March 26, 1998

North West Company Fund Distribution Payments
First distribution in 1997: September 15
(record date August 15)
Then regular payment schedule will resume:
December 15, 1997 (record date November 15)
March 15, 1998 (record date February 15, 1998)
June 15, 1998 (record date May 15, 1998)

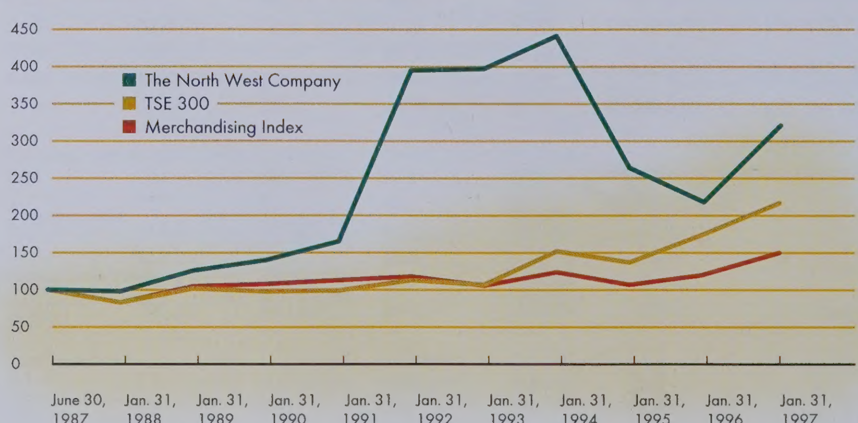
Number of shares outstanding at fiscal year end: 15,000,000

Average number of shares outstanding in 1996: 15,095,277

CUSIP number: 662906 10 6

[Note]
All currency figures in this report are in Canadian dollars, unless otherwise noted.

RELATIVE STOCK PRICE PERFORMANCE (%)



This chart compares the relative performance of the common shares of The North West Company since 1987, with the TSE 300 composite index and the merchandising sub-index of the TSE 300. Values between June 1987 and listing on the TSE in September 1990 are based on the book value of shares of The North West Company. The index incorporates dividend reinvestment.

Directors & Officers

Directors

Ian Sutherland [1,5]
Chairman,
The North West Company Inc.

Edward S. Kennedy
President and
Chief Executive Officer

Lloyd I. Barber [2,3,5]
President Emeritus,
The University of Regina

Donald A. Beaumont [1,3,4]
Retired President and CEO,
Kmart Canada Ltd.

Nellie Cournoyea [4,5]
Chairperson and Chief
Executive Officer
Inuvialuit Regional Corporation

Raymond Doré [2,3]
Chairman,
Mutual Securities Inc.

Gary Lukassen [1,3,4]
Executive Vice-President and
Chief Financial Officer,
Hudson's Bay Company

Stanley McKay [2,4]
Director, Dr. Jessie Saulteaux
Resource Centre

Sterling J. McLeod [3,5]
Consultant,
Investors Group Inc.

James G. Oborne [1,2,5]
President, Mentor Capital
Management Corporation

T. Iain Ronald [1,2,4]
Past Chairman

Officers

Ian Sutherland
Chairman of the Board

Edward S. Kennedy
President and
Chief Executive Officer

William C. Douglas
Vice-President,
Retail Operations

Gary V. Eggertson
Vice-President, Finance
and Administration,
and Secretary

Darryl P. Lemecha
Vice-President,
Information Services

John R. McFerran
Vice-President,
Human Resources

Bradley R. Vollrath
Vice-President, Distribution
and Transportation

North West Company Fund Trustees

Ian Sutherland
Chairman,
The North West Company Inc.

Kevin R. Bolt
Partner,
Pitblado & Hoskin

David G. Broadhurst
Investment Banker
First Marathon Securities Limited

Principal Subsidiary Company

Alaska Commercial Company (AC)

Corporate Executive

Edward S. Kennedy
Chairman and
Chief Executive Officer

Gerald H. Bittner
President

R. Grant Hodge
Vice-President,
Large Store Operations

Rex A. Wilhelm
Vice-President,
Small Store Operations

Corporate Information

Auditors

Price Waterhouse, Winnipeg

Bankers

The Toronto-Dominion Bank
Bank of Montreal

Registered Office

Gibraltar House
77 Main Street
Winnipeg, Manitoba
Canada R3C 2R1
(204) 943-0881

For additional copies of this report or for general information about the Company, contact our Assistant Corporate Secretary.
Dial direct: (204) 934-1481
Toll-free: 1-800-563-0002
Fax: (204) 934-1455
e-mail: pjeaston@northwest.ca
www.northwest.ca

Committees of the Board
1 Executive Committee
2 Corporate Governance and Nominating Committee
3 Audit Committee
4 Human Resources & Compensation Committee
5 Pension Committee

Design: CIRCLE
Pre-press imaging: GB Graphics
Printing: Premier Printing
Principal photography:
Paul Martens Photographer,
Natalie B. Fobes Photography
(portrait page 5)

Throughout this annual report, photographs of customers and employees from the communities of Baker Lake, Cambridge Bay, Gjoa Haven, Rankin Inlet, Taloyoak, The Pas and Waskaganish are shown.

Our goal is to prosper by applying our business skills and shared values to develop existing operations to their full potential, while successfully expanding into similar markets.

OUR SHARED VALUES

In pursuit of our goal, we will:

- Make customer satisfaction our first priority.
- Demonstrate an enterprising spirit.
- Respect employees as individuals.
- Encourage and reward innovation and productivity.
- Be a caring and supportive corporate citizen.
- Recognize suppliers as real partners.
- Create value for shareholders.
- Conduct business activities with integrity and respect.